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VIA ELECTRONIC MAIL

Mr. David Stinson
Director, President & General Manager
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Ms. Donna Coleman
Director, Vice President, Comptroller & Corporate Secretary
Norfolk and Portsmouth Belt Line Railroad Company
P.O. Box 7545
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Re: Rail Service Connection to NIT – Rate Proposal and Operating/Financial Plan

Dear Sir and Madam:

After consultation with NPBL and Virginia International Terminal (VIT) to address operational concerns, CSXT submits the following formal rate proposal, together with an operating plan and related financial information. As detailed below, and assuming NPBL elects to use CSXT locomotives at no charge, this rate proposal will provide the NPBL with at least \$149,452 in guaranteed incremental operating income in the first calendar year of operations alone.

Operating Plan

This operating plan is for intermodal single-stack unit train service between Berkley Yard and Norfolk International Terminals (NIT). In addition to minimizing direct expenses to the NPBL, this operating plan is designed to integrate with existing and planned operations inside the gate at NIT.

At the onset, CSXT requests a drop & swap service three days per week, whereby the NPBL would complete services at NIT between 00:01 and 05:00 on Monday, Wednesday and Friday.



- First, CSXT will deliver a locomotive, including sufficient fuel for the round-trip to NIT, and cars to Berkley Yard, between 23:00 the preceding day and 01:00 the same day.
- On the days of CSXT's delivery to Berkley Yard, the NPBL will access NSRR tracks starting at NS Jct., as permitted by agreements between NPBL, NSRR and their respective predecessors dated: July 26, 1917, July 27, 1917, December 31, 1985 and January 1, 2008.
- NPBL will arrive at NIT during the scheduled window from 00:01 to 05:00.
- The NPBL crew will then contact VIT for instructions relative to inbound placement and the outbound location of CSXT train to be pulled from NIT.
 - NPBL will deliver the inbound train to the designated NIT track. If there is an outbound consist to be picked up at NIT, the NPBL crew will retrieve the consist from the pickup track designated by VIT.
 - The outbound consist will already have been inspected and air tested by TTX, at no cost to the NPBL.
 - The NPBL crew will backtrack over the same route returning to Berkley Yard for CSXT pick up.
 - If for any reason, Berkley Yard is unavailable or CSXT does not have a crew ready for the pick up, the parties shall agree upon a mutually acceptable alternative pick up point.
 - If there is no outbound consist to be picked up at NIT, the NPBL crew would return the light locomotive to Berkley or other mutually agreed upon point for CSXT pick up.

Please note the following, which was incorporated into this operating plan:

- The NPBL management has expressed confidence that the proposed round-trip schedule can be completed efficiently with one scheduled crew start.
- This operating plan assumes the NPBL will use CSXT's locomotive between Berkley and NIT without cost or requirement to refuel.
 - This accommodation will not only simplify operations for these moves, it will enhance NPBL's profitability as noted in the first table below. If NPBL elects to use its own power, the calculations shown in Table 2 will apply.

Rates and Contractual Terms

In order for the NPBL to secure port-related traffic at NIT, its rates and operating requirements must be competitive. Presently, the NPBL's switch rate of \$ 210 per car is an economic barrier that prevents CSXT from being able to move any meaningful port freight by rail at NIT.

Here's why: under Item 125 of its public tariff, the Commonwealth Railway charges \$35.61 per container (empty or loaded) for a similar movement from APM Terminals. The difference between switch charges is considerable, and will only make the NPBL's rate less competitive now that VIT can shift traffic to APM Terminals in its discretion.

CSXT is not interested in placing the full burden on the NPBL to close this gap. Our proposed operating plan, which provides substantial assured incremental operating income, demonstrates our willingness to make accommodations to help the NPBL in this effort.

Accordingly, CSXT proposes the following, all to be memorialized in a formal agreement:

- One-way rate of \$37.50 per container (empty or loaded) for a term of three years on movements handled by the NPBL between Berkley Yard and NIT.
- To minimize financial risk to the NPBL, CSXT commits to provide a minimum average volume (measured over each six month period during the term) of 50 containers per scheduled NPBL round-trip. Assuming three days per week service, the NPBL would have a consistent revenue stream of \$146,250 for 3,900 containers for that six month period.
- In consideration of CSXT's commitment, CSXT may request that scheduled service days be adjusted upon CSXT's prior written request. Also upon prior written request, CSXT may request double-stack service at the same rate per container. These adjustments, with allowance for proper notice, would give both parties adequate time to respond to changing market conditions.
- The NPBL's standard settlement and credit terms would apply to the covered traffic, with any potential container shortfall payment to be remitted in a reasonable time after each six month period.
- Mutually acceptable measures and standards of service, including incentives related thereto, would be incorporated into a formal agreement.

Economic Impact on the NPBL

As shown below in Table 1, based on CSXT's internal analysis of the NPBL cost structure, and the use of CSXT's locomotives and fuel at no cost, this proposal would provide the NPBL with a minimum of \$149,452 of additional annual operating income starting in the first full year of operations. That would represent an increase of 25% over 2009 total operating income for the NPBL.

It is worth emphasizing that there is nothing but upside to this proposal, especially with a baseline commitment of 50 containers. For example, if CSXT tenders 80 containers per round-trip (the "Project Volume"), the NPBL's incremental operating income would be \$296,872 over the first full year of operations. This modest increase in volume is not an unreasonable projection, and yet it would represent almost a 50% increase to 2009 operating income.

[TABLES FOLLOW ON NEXT PAGE]

Table 1

	W/ CSXT Locomotives & Fuel	
	<u>Base Level</u>	<u>CSXT Projected</u>
Avg. Containers Per Train (Scheduled Crew)	50	80
Annual		
Container Volume	7,800	12,480
NPBL Revenue	\$292,500	\$468,000
Compensation & Benefits	\$96,248	\$96,248
Locomotive Expense	\$0	\$0
Fuel	\$0	\$0
Incremental Maintenance	\$46,800	\$74,880
Direct Expense*	\$143,048	\$171,128
Operating Income Impact	\$149,452	\$296,872
* Extrapolated from 2009 Rate Committee Meeting Package		

Table 2

	W/ NPBL Locomotives & Fuel	
	<u>Base Level</u>	<u>CSXT Projected</u>
Avg. Containers Per Train (Scheduled Crew)	50	80
Annual		
Container Volume	7,800	12,480
NPBL Revenue	\$292,500	\$468,000
Compensation & Benefits	\$96,248	\$96,248
Locomotive Expense	\$10,714	\$10,714
Fuel	\$19,000	\$19,000
Incremental Maintenance	\$46,800	\$74,880
Direct Expense*	\$172,762	\$200,842
Operating Income Impact	\$119,738	\$267,158
* Extrapolated from 2009 Rate Committee Meeting Package		

Note to Table 2: As noted above, CSXT's operating and financial plan contemplates the NPBL's use of CSXT locomotives and fuel at no charge. However, should the NPBL wish to use its own locomotives and fuel, Table 2 provides an estimate of the economic impact to the NPBL, which remains quite favorable.

If the NPBL elects not to use CSXT's locomotives and fuel, the NPBL would still make \$119,738 in incremental operating income at the base-line volume commitment level in the first year of operations. And, using the Projected Volume, the NPBL would generate \$267,158 of incremental operating income, which would represent an increase of approximately 45% over 2009 total operating income for the NPBL.

Summary

CSXT reaffirms its belief that time is of the essence for the NPBL to consider this proposal, which is designed to enable both parties to attract intermodal port traffic at NIT. The outlined operating plan and projected financial gains respond to the NPBL's earlier concerns and provide the justification necessary for the NPBL management to support this endeavor.

CSXT also believes this proposal enables the NPBL to deliver on the commitments it has made, directly and indirectly, to the citizens of the Commonwealth, to create competitive dual rail service at NIT. We hope you agree and respectfully request a favorable response from you on or before August 20.

Very Truly Yours,



John Booth